

## **MINUTES**

### **MONTANA SENATE 57th LEGISLATURE - REGULAR SESSION COMMITTEE ON TAXATION**

**Call to Order:** By **CHAIRMAN BOB DEPRATU**, on January 19, 2001 at 8:00 A.M., in Room 303 Capitol.

#### **ROLL CALL**

**Members Present:**

Sen. Bob DePratu, Chairman (R)  
Sen. Alvin Ellis Jr., Vice Chairman (R)  
Sen. John C. Bohlinger (R)  
Sen. Mack Cole (R)  
Sen. Pete Ekegren (R)  
Sen. Jon Ellingson (D)  
Sen. Bill Glaser (R)  
Sen. Dan Harrington (D)  
Sen. Emily Stonington (D)

**Members Excused:** None.

**Members Absent:** None.

**Staff Present:** Lee Heiman, Legislative Branch  
Deb Thompson, Committee Secretary

**Please Note:** These are summary minutes. Testimony and discussion are paraphrased and condensed.

**Committee Business Summary:**

Hearing(s) & Date(s) Posted: SENATE BILL 155, 1/15/2001  
SENATE BILL 213, 1/15/2001  
Executive Action: None

#### **HEARING ON SENATE BILL 213, SENATE BILL 155**

**Sponsor:** SEN. BILL GLASSER, SD 8, SHEPHERD presented SB 213  
SEN. MIKE HALLIGAN, SD 34, MISSOULA presented SB 155  
These two bills were presented together, with proponents and opponents.

**Proponents:** Dan Dodds, Department of Revenue; Alec Hansen, Montana League of Cities and Towns; Bill Kennedy, Yellowstone County Commissioners; Janet Stevens, Taxpayer; Mona Jamison, Big Sky Resort; Colleen McCarthy, Mayor of Helena; John Lawton, City Manager for Great Falls; Michael Larson, Billings City Council; Pat Clinch, Montana State Council of Firefighters; George Warner, Mayor of Dillon; Jerry Williams, Montana Chiefs of Police; Stewart Doggett, Montana Innkeepers; Amy Sullivan, Montana Tourism Coalition; Daniel Watson, former Rosebud County Commissioner; Gordon Morris, MACO; Mark Staples, Montana Tavern Association

**Opponents:** Bob Person, Great Divide Ski Area; John Kowalski, Showdown Ski Area; Riley Johnson, National Federation of Independent Businesses; Mary Whittinghill, Montana Taxpayers Association; Web Brown, Montana Chamber of Commerce; Mary Schlepp, Montana Farm Bureau; Peggy Trenk, Montana Association of Realtors; Don Judge, AFLCIO; SENATOR ALVIN ELLIS, SD 13, Redlodge

**Opening Statement by Sponsors:** SENATOR GLASSER presented Senate Bill 213. He stated it was obvious that local governments needed funding. He pointed out that besides fees, the only way to get more money presently is from property taxes. This bill would allow local determination by letting the voters decide. They could decide how to distribute the money within the trade area; how much money would be used for property tax relief; how to handle the continuation of revenue streams for bonds when the taxing area changes; and, how to redefine the areas as the market areas change through population shifts.

SENATOR HALLIGAN opened on Senate Bill 155. He described the twenty years of restrictions against local control, restricting the local governments ability to use the bed tax money. He pointed out that 32 other states allowed local options taxes that diversified their base, enabling less reliance on things such as gambling revenues. It allowed greater independence to dictate their own destinies. He described the differences between the two bills. He said one of the key differences is that his bill SB 155 had a distribution mechanism that allowed the Department of Revenue to distribute 25% to communities statewide. *{Tape : 1; Side : A; Approx. Time Counter : 0 - 11.5}*

**Proponents' Testimony:**

Dan Dodds, Department of Revenue, testified that the sponsors had requested comparisons of the two bills. Both require local voter approval. SB 155 differs in types of luxury items. SB 213 differs in types of establishments, such as lodging and includes

rental of equipment for recreation. Both bills specifically exclude groceries, medicine, appliances, hardware and necessities. Both allow counties and municipalities to adopt local option tax. He pointed out that SB 155 limits counties and municipalities to 4%. SB 155 treats the resort tax differently to grandfather the resort tax for the period of time it was in effect. He distributed a comparison sheet. **EXHIBIT (tas15a01)**  
**{Tape : 1; Side : A; Approx. Time Counter : 11.9 - 23.9}**

**Alec Hanson, Montana League of Cities and Towns**, pointed out the need to define the trade areas and boundaries. He stated this was a way to provide basic, fair tax policy which would require tourists to pay for services they use. He noted that 47% of revenue came from beyond our borders. People want property tax relief and this would provide that relief. Both bills require a local vote, so the tax would not be imposed by the Legislature.  
**{Tape : 1; Side : A; Approx. Time Counter : 23.9 - 30}**

**Bill Kennedy, Yellowstone County Commissioners**, pointed out the local option sales tax would give local governments a tool. He described the road problems that finally gained voter approval to raise one million dollars. Also, the expansion of facilities in West Yellowstone benefitted the whole state. The public safety levy and the museum levy finally passed by the voters. The local options sales tax is a tool that is needed to fund services. The only option presently, to fund services, is the property tax. Services add more and more burdens on local governing bodies. Twenty five percent of the levy gained from enacting this legislation would be going to other communities, such as those in Eastern Montana, who depend on coming to market in the larger metropolitan areas. Larger urban areas need infrastructure which is very expensive. This would provide a needed tool to solve these problems without having to raise property taxes.  
**{Tape : 1; Side : B; Approx. Time Counter : 0 - 5.4}**

**Janet Stevens, a taxpayer**, said she paid \$5,500 a year on property taxes. She owned four small businesses. She supported the local options sales tax because it would allow a distribution of revenue in the trade areas and would be a reduction of property tax. A mechanism to diversify the tax bases would be helpful. **{Tape : 1; Side : B; Approx. Time Counter : 5.4 - 7.5}**

**Mona Jamison, representing Big Sky Resort**, spoke in support of the bill. She pointed out this would be a voter choice. She said there was no intention of affecting existing resort areas, however, there was a problem with the draft as the word "resort" areas applied to unincorporated areas. The resort tax statute should be preserved.

**Colleen McCarthy, Mayor of Helena,** spoke as a proponent. She emphasized that 47% of the revenue collected would be from tourists. This bill would give the local citizens the option to vote whether or not to impose the tax. She described the recent Open Space and Library issues that helped raise money for Helena. She said this engaged the citizens in the public process to help raise the funds needed for these types of projects. *{Tape : 1; Side : B; Approx. Time Counter : 7.5 - 17}*

**John Lawton, City Manager of Great Falls,** discussed local government funding and structures. He said the merits of the local options idea would be agreeable if it provided 100% property tax relief.

**Michael Larson, Billings City Council Member,** pointed out the struggle faced by local governments to provide basic services without going to property taxes as the source. He urged the committee consider both bills as they would provide valuable tools for funding. *{Tape : 1; Side : B; Approx. Time Counter : 20.2 - 21.8}*

**Pat Clinch, representing the Professional Firefighters Association,** said this was the way to fund the city essential services. He described the long hours of firefighters where the call volume has risen from 400 calls per year to 2,600 per year with the same manpower as in 1985. Firefighters need to be protected and funded.

**George Warner, Mayor of Dillon** and auto machinist, described the tools he needed in his line of work. He related this to the need for a funding source for local issues similar to the tools necessary in the mechanics trade. He said municipal mill levies did not survive the test. He brought up the I-105 issues. He said local options tax could be passed by the Legislature in exchange for property tax relief. *{Tape : 1; Side : B; Approx. Time Counter : 23 - 25.8}*

**Jerry Williams, police officer and member of Montana Chiefs of Police,** spoke in support of the legislation.

**Stewart Doggett, Montana Innkeepers,** said his members supported the bills. He advocated a broad base cap of 3%. He said the resort taxes worked well. He said our economy was service based and depended on tourists. Communities would be allowed to tax non residents to benefit the local areas.

**Amy Sullivan, Montana Tourism Coalition,** spoke in support of the bills. She noted how many wonderful projects had been funded that were a benefit to the communities. The local options sales

tax would give rise to these types of projects that would finally have a funding source.

**Daniel Watsen, former Commissioner of Rosebud County**, said he was in favor of the bills. He said he preferred the 25% sharing of the funds for the bedroom communities, such as in Yellowstone County.

**Gordon Morris, MACO**, spoke in support of the bill. *{Tape : 2; Side : A; Approx. Time Counter : 0 - 2}*

**Mark Staples, Montana Tavern Association**, pointed out the need to be broad based. He said what is going to be taxed needs to be on the ballot.

**Opponents' Testimony:**

**Bob Person, representing Great Divide Ski Area**, described the unintended consequences of passing these bills. Taxing small rural businesses would be taking out of their bottom line. There would be costs of administration of the tax. He pointed out the ski hill may be taxed because it was a luxury which was questionable. The ski area provides outdoor recreation to hundreds of school children. They should not be taxed.

**John Kowalski, representing Showdown Ski Area**, said his views were similar. These local option tax bills represent an unfair tax to clients and guests. Small ski hills are struggling as it is and they would prefer a general sales tax so as not to target certain areas.

**Riley Johnson, representing National Federation of Independent Businesses**, testified against the bills. He represented 8,000 small business owners. His members voted on the local option tax issue. The response was 30% yes and 60% no. Plainly, small business says no to this tax. **EXHIBIT(tas15a02)**

**Mary Whittinghill, Montana Taxpayer Association**, testified that the local option tax was not the answer. Once initiated it can't be taken away. Comprehensive tax relief is difficult to obtain. Sales tax needs to be uniform and statewide, not piecemeal. These proposals add to the cost of doing business. Members surveyed in the association voted against the measure 2-1. If tax reform is necessary, a balanced tax system is needed. Other states have been trying to fix their systems and not too easily.

**Webb Brown, Montana Chamber of Commerce**, spoke in opposition to the bills. He had concerns regarding the rural/urban split of deciding where the money would be spent. Sharing was a good

idea, but the tangle of taxes enacting local options would be a benefit for one business over another. **{Tape : 2; Side : A; Approx. Time Counter : 5.2 - 18.1}**

**Mary Schlepp, Montana Farm Bureau**, pointed out the sparse tourist visits in certain rural areas. She said she appreciated the 25% set aside for these areas but it did not reflect the need of that particular area. How the money is distributed is a problem. Tourists come to the rural areas to fish or recreate but they stay in the cities. She said it was important that the funds stay in local areas and not spread through the entire state. A more broad base tax would be preferred.

**Peggy Trenk, Montana Association of Realtors**, described the position statement of the association. She said they appreciated the possibility of a reduction in local property taxes. There were three conditions that would be agreeable to the association. That would be voter approval, a specific sunset and the funds be designated for a specific purpose.

**Don Judge, AFL-CIO**, testified against the bills. He felt the large corporations benefitted from the business inventory tax elimination and the business equipment tax elimination. These taxes had provided revenue for local government and education. He pointed out there were millions lost in taxable revenues through purchases over the Internet. Income and property taxes are dedicated for local government, however a sales tax would not be dedicated, therefore it is not the best solution. **{Tape : 2; Side : A; Approx. Time Counter : 24.1 - 30.4}**

**SENATOR ELLIS, SD 12, Red Lodge**, testified against the bills. He felt the bills were unclear and would not be good policy. He described difficulties in fairness with small communities. **{Tape : 2; Side : B; Approx. Time Counter : 0 - 3.2}**

**Questions from Committee Members and Responses:**

**SENATOR BOHLINGER** questioned the estimated revenues that would be generated. **SENATOR GLASSER** described the various options. For example a one percent local option on all counties would raise 18.7 million. A 4% tax would raise 74.8 million.

**SENATOR ELLINGSON** pointed out concerns regarding the definitions of necessities, such as all articles of clothing. These would need to be specifically stated in a resolution. Fuel should not be taxed. He agreed the tax base had been narrowed when the tax cuts were considered, and other means of funding needed to be explored.

**SENATOR STONINGTON** asked why small business would oppose a local options tax. She noted there were layoffs in Bozeman and the city could not afford to snow plow side streets. She said these limitations by local governments should be a stress to small businesses. **Riley Johnson** replied that members of his organization opposed the local options sales tax because it was a nightmare to administer and would be costly. They would prefer a broader base tax rather than this selective sales tax. They did not consider this fair. **SENATOR STONINGTON** asked how it could be a nightmare to administer. She described computer programs that sorted which items were taxed. She also pointed out that if local governments were strapped for funding, then important maintenance or safety considerations may go unattended and then no one will come to this state because of the poor state of affairs. *{Tape : 2; Side : B; Approx. Time Counter : 18.9 - 20.7}*

**Mr. Johnson** replied that computerization may be easy for a large retail store but average Montana businesses that have two or three employees are not computerized. They do not have sophisticated equipment.

**SENATOR STONINGTON** asked **Webb Brown** to comment on the administration of the tax, if this would be a problem. **Mr. Brown** replied that this would represent an additional burden to those businesses.

**SENATOR BOHLINGER** pointed out the need to have uniformity with regards to luxury items, so this would be the same in each county. However, since these are locally controlled they would have the flexibility to exclude ski areas, for example. This would reflect the tenor of the local communities. *{Tape : 3; Side : A; Approx. Time Counter : 0 - 2.9}*

**SENATOR GLASSER** pointed out that income and property taxes were government taxes, where the local option sales tax would be designed by the local people who would determine its use.

**SENATOR COLE** asked **Mary Wittinghill** to comment about her thoughts on why her members were against the proposals 2-1. **Ms. Wittinghill** replied that the bills targeted certain areas and did not reflect the big picture. She said it was time to look at a balanced view, given the new economy. *{Tape : 3; Side : A; Approx. Time Counter : 2.9 - 8.1}*

**Closing by Sponsors:**

**SENATOR HALLIGAN** closed on SB 155. He said the bill empowered local governments and gave them the tools they need to get solutions. This would provide 25% of the funding to be shared with smaller jurisdictions that never get this type of help. This is not telling them what to do. He recommended not passing the bill without including property tax relief.

**SENATOR GLASSER** closed on SB 213. He suggested the committee pass the bills so they could work through the legislative process. He summarized that income and property taxes were government taxes. These bills are the people's taxes and would provide services needed at the local level. This is done with a vote of the people.

**CHAIRMAN DEPRATU** said the bills needed more work. He appointed a subcommittee to do that. **SEN. GLASSER** as Chairman, **SENS. EKEGREN** and **STONINGTON** as members.

**ADJOURNMENT**

Adjournment: 10:14 A.M.

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SEN. BOB DEPRATU, Chairman

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DEB THOMPSON, Secretary

BD/DT

**EXHIBIT (tas15aad)**